

EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

October 17, 1973

MEMORANDUM FOR:

DR. JOHN MARTIN
Acting Deputy to the Director of
Central Intelligence for the
Intelligence Community
CIA

FROM:

FRED MALEK *FM*

SUBJECT:

Recent Articles on MBO

In our September 19 meeting we discussed the need for you to act as an advocate for management by objectives and to assist in getting across the concepts of MBO to others. The attached articles by Tony Turner (Commerce Today, Department of Commerce) and Dudley Mecum (World, Peat, Marwick, Mitchell and Co.) are two recent examples that may be of interest to you.

Attachments

Government Applies Management Approach To Aid Business Services

'Management By Objectives' Used By Industry Shows Promise In Federal Scheduling Activity

This article was prepared by Henry B. Turner, Assistant Secretary of Commerce for Administration.

A business-oriented approach to managing the Federal Government, recently instituted by President Nixon, shows real promise for improving services to business through the Department of Commerce.

Known as "Management by Objectives," the new approach has been used in private industry but only recently has it been applied to the more complicated and less measurable activities of government.

Management by Objectives is basically just common sense in management: it consists of stating in specific terms what your major objectives are, the steps you intend to take to achieve them and the timetable for completing each step, and then checking regularly to see if you are on schedule and if not why. However, applying this system to the many varied and often generalized goals of a government department is a complicated and sometimes frustrating process.

Offhand, you would think that tangible returns from a federal investment would usually be impossible to determine; and in fact, government has often succumbed to the temptation to call in the Director of Public Affairs rather than the Director of Program Evaluation when the time came to justify an investment. Several months of working with Commerce bureau directors convinces

me that even the most subjective of goals can be quantified and good dollar values assigned if we are willing to examine closely enough those instinctive "gut feelings" we have concerning a goal. We almost invariably find that these "gut feelings" on closer inspection are really the sum total of some fairly specific and quantifiable benefits.

This attitude already exists in Commerce and so the President's new program of Management by Objectives for all federal agencies was received with alacrity. Each Department and agency is required to submit to the Office of Management and Budget a list of the 10 or 15 most important objectives of Presidential concern it intends to accomplish in the next year to 18 months. After approval by the President, this list constitutes the Commerce Department's major work program.

This is not a big paper-pushing project; on the contrary, rather than continuing reports and voluminous paperwork, the system basically relies on bimonthly meetings between Roy L. Ash, the President's Director of Management and Budget, and Secretary of Commerce Frederick B. Dent, to review progress and keep things on track. This is a simple approach, but in many ways it has begun to revolutionize management in government.

First of all, a prime criteria is that an objective be stated in tangible and verifiable terms. The broad, high-sounding statement is no longer enough to justify expenditure of the taxpayer's money. We now must know



MANAGEMENT BY OBJECTIVES—At a bimonthly meeting at the Commerce Department, Secretary Dent (second from right) discusses a current departmental objective with (from left) Henry B. Turner, Assistant Secretary of Commerce for Administration; Roy L. Ash, Director, Office of Management and Budget; and his deputy, Frederic V. Malek, Office of Management and Budget.

what the return on investment will be and when that investment will yield a return. In addition, we are tying our objectives to the budgeting and resource allocation process, so that we can relate the benefits of a project to its costs. Concrete figures on this relationship are essential if we are to compare the benefits per tax dollar of federal programs.

Examples of some of the specific objectives of the Department are:

- To assist U.S. companies in capturing specific export sales opportunities by providing 500 major export leads and 12,000 smaller trade opportunities, to expand exports by \$200 million by July 1974.
- To broaden the export base by getting 2,900 U.S. companies to export for the first time or to begin exporting to new markets, and by providing direct export promotion support for 3,400 current exporters, which should boost exports another \$330 million by December 1974.
- To lead an interagency effort to identify and reduce domestic obstacles to export, thereby increasing exports another \$100 million by June 1974.

Even after we have stated these objectives in clear and quantifiable terms, we have only begun; the major part of the program focuses on the way in which we will meet our objectives, who is responsible for meeting them, and when they will be accomplished. This information in the aggregate forms the milestones or steps which must be taken to meet

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For example, among the milestones estab-

lished for the first objective described are:

- September 1973: Initiate feedback reporting system to State Department on follow-up major export leads.
- October 1973: Conduct test advertising of trade opportunities.
- January 1974: Direct mail dissemination of 5,000 trade opportunities to U.S. business.
- June 1974: Reach total of 12,000 trade opportunities disseminated.

As one can see, these milestones are specific, they are measurable, and the answer to the question "did you make it?" is either "yes" or "no", with little room for rhetoric. Under this system, therefore, it is not at all difficult for the Secretary, and the President, to follow an objective from initiation to completion and to see that it is accomplished, that it is accomplished on schedule, or if it starts falling behind to take action to bring it back on schedule.

Contrary to what one might expect, we have found in Commerce that most program managers embrace Management by Objectives once they see how it operates; they become more comfortable with the difficult aspects of their programs once they have been placed in a position where they have to think through these programs to the point of specifying objectives and milestones. The reason seems to be that hidden obstacles are uncovered in this process, and uncovered early enough so that they can be dealt with or discussed with the Secretary before they become embarrassing problems.

Which leads to the last major element in Management by Objectives: the goals and milestones are not imposed by fiat from above, but are established by the program managers themselves, by the people who will have to live up to them. Obviously, some control is exercised over those who say it will take three years to do what in reality can be done in one; but generally speaking, most managers are straightforward about what they can accomplish, and highly motivated to do it once they have set their own goals.

Clearly, Management by Objectives is only now really getting into full swing. But experience to date indicates that by substituting specific targets for vague unmeasurable goals it can produce concrete accomplishments. In short, it can help the Department of Commerce zero in on the actions which will really help the business community in the above example, export trade in particular.

better government through

Management by objectives

by Dudley C. Mecum II

Management by objectives is being implemented in the Federal Government. As a result, President Nixon expects to be provided with a sharper focus on the results achieved by key Federal department and agency heads.

The author of the following article plays a major role in shaping the new management style of government. He is a former principal in the Management Consulting Department of PMM&Co., who left the firm in the fall of 1971 to become Assistant Secretary of the Army (Installations and Logistics). He moved over to the Office of Management and Budget last April as Assistant Director.

The President recently initiated two major management initiatives as part of a renewed drive toward excellence in government.

The first initiative has been largely completed. It produced a strengthened Office of Management and Budget staffed with new management talent, including Director Roy L. Ash and Deputy Director Frederic V. Malek.

Ash and Malek are playing the key role in implementing the President's second management initiative which emphasizes results achieved by Federal agency and department heads. This initiative features the management by objectives (MBO) approach, successfully used in corporate planning circles for a number of years.

The concepts underlying management by objectives were first popularized in the early 1950s. George Odiorne, the man most identified with the philosophy, defines it as "... a process whereby the superior and subordinate managers of an organization jointly identify its common goals, define each individual's major areas of responsibility in terms of the results expected of him, and use these measures as guides for operating the unit and assessing the contribution of each of its members."

The President has requested 21 agency and department heads to develop, and commit themselves to accomplish 10 to 15 major goals and objectives during the next year. He felt that in the past departments and agencies were not required to provide a clear, comprehensive statement of what they were doing to carry out Presidential

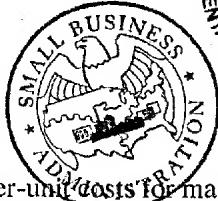
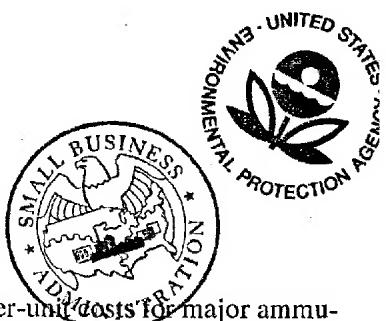
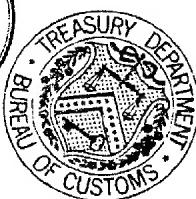
goals and programs. The result was that many Executive Branch organizations did not always place their energies and resources in areas that were of Presidential priority. Another, and equally important, result was that without a clear statement of what an organization was doing, it was impossible to evaluate progress and management efficiency and effectiveness.

We anticipate that the management by objective program will overcome these past problems. For example, with each Presidential program it will be necessary for the concerned Executive Branch organizations to sit down together, think through, and make commitments to a course of action to carry out these programs. In addition, it:

- separates the many issues facing each department into those of major importance and those of lesser importance.
- affords the opportunity for achieving rapid, major accomplishments in high priority areas rather than plodding progress on all fronts.
- requires each agency department head to commit himself with respect to where he will be directing his energy for the next year.
- provides the vehicle for coordinating issues which cross agency lines; and
- permits evaluation of progress on a timely basis for corrective action if needed.

It should be pointed out that the objectives process is also a fundamental building block in decentralized management. It allows the various agency heads to set *their* objectives and to assume the responsibility along with the authority for attaining them. Without the objectives process, decentralized management could better be described as "management by abdication."

The objectives to which the department and agency heads have committed are of several types. For example, the objectives may include new policy initiatives similar to the Department of Housing and Urban Development's objective to secure passage of legislation to create a Department of Community Development; or the objectives may include major operational achievements similar to the Environmental Protection Agency's objective to promulgate or approve 38 transportation control plans required to enable the metropolitan areas to attain



national ambient air quality standards; or they may include improvements to current Federal programs, similar to HEW's objective to improve the administration of public assistance programs by reducing the rate of incorrect payments to 5% by June 1975. But no matter what the nature of the objective, the emphasis is on results-oriented achievements of Presidential priorities.

In order to ensure achievement, agencies and departments are required to time-scale their objectives in terms of significant interim and final milestones. Consequently, at Cabinet meetings and elsewhere, the President will be able to review progress and direct actions to ensure achievement.

One of the challenges encountered during the formative stages of MBO is the problem of measurement of results. This challenge is not unlike the private-sector executive faced with installing a social-accounting system. In a government environment, several dimensions are added to the measurement problems of the corporate environment. For example, we not only encountered the question of *when* can the government expect to see and measure the longer-term impact of an HEW program of student assistance in higher education but also the fundamental question of *how* to measure the progress and results of health, economic development, welfare, and other social and economic programs.

Notwithstanding these problems, I am convinced that the conscious emphasis on setting and committing to objectives, the improved communications and the early resolution of issues will substantially enhance Federal program performance on a broad scale. The potential payoff is very attractive and in order to provide an added measure of reality to this statement, I would like to discuss demonstrated results of how well management by objectives can work.

In March 1972, when I was the Army's Assistant Secretary for Installations and Logistics, my staff and I developed a series of nine objectives covering a wide range of subjects from reducing the number of wheeled vehicles in the Army, to retrieving Army materiel from Vietnam, to reducing the cost of ammunition items. We set, as a time frame, calendar year 1972 to accomplish these objectives. Varying degrees of success were achieved. For example, we were able to reduce the

Army's fiscal year 1973 per-unit costs for major ammunition items below the per-unit costs of fiscal year 1953, taking into account the differences in the buying power of the dollar. Perhaps equally important, these measurable objectives helped in managing the Army's logistics functions by providing a focus for continued and consistent day-to-day actions.

Now let me describe some of the actions that were required to attain certain of the objectives to illustrate how similar the management style that evolved is to that which is successful in private business. For example, consider the objective to "monitor and take necessary action to ensure the timely and proper distribution of all Army materiel that is no longer required for mission support in U.S. Army, Vietnam." The aftermath of past conflicts had seen the accumulation of huge surpluses. For example, we were left with \$12 billion worth of excess assets after the war in Korea. Because of deterioration and obsolescence many of these after-war surpluses had little use or salvage value. For the first time in the history of military operations, we took action to clean up the battlefield in the Republic of Vietnam before hostilities actually terminated, and today we are making maximum use of this excess war materiel.

A plan, known as T-Day Planning, was developed to facilitate redeployment of our forces. Although the plan was never implemented in its original form, parts of it were executed under the U.S. Army, Vietnam Retrograde Program. Our success in reducing the excess "pile" from 650 thousand short tons to 50 thousand short tons as of June 30, 1972 is a tribute to all who participated.

The reduction of the number of wheeled vehicles in the Army's inventory examined the Army's requirement in the aggregate rather than vehicle type by vehicle type. This had never been done before, and perhaps, without our cross-cutting objective, still might not have been done. The Army's requirements for the major payload tactical trucks—the $\frac{1}{4}$ ton, $\frac{3}{4}$ - to $1\frac{1}{4}$ ton, $2\frac{1}{2}$ ton, and 5-ton—represent a \$3 billion investment. The average annual procurement program is about \$300 million to support this inventory. With a mere 10% reduction in requirements for these and other tactical vehicles, a \$30 million yearly reduction in the Army budget could be realized.



We proposed to the Secretary of the Army that a full-scale independent study be conducted to look into the entire matter of wheeled vehicle requirements, use, and management. As a result, a panel of experts studied the Army's tactical wheeled vehicle requirements for several months. The study indicated that the 10% reduction in the tactical vehicle fleet was a gross underestimate and that a 25% reduction could be attained. The study also predicted that over a billion dollar reduction in Army procurements will accrue over the next six fiscal years. When operational and maintenance costs are included, the savings will exceed \$3 billion.

Another of our key objectives was the "review and upgrading of Government owned-contractor operated (GOCO) facilities." Essentially, these facilities account for 40% of the ammunition production for which the Army has procurement responsibility. Over recent years the Army has spent more than \$1 billion annually on ammunition of all types. This is more by far than it spends on any other item, including tanks and helicopters. Clearly, savings or improvements in the acquisition of this item would have significant impact on the Army's budget. The ammunition production base, as it existed a year or so ago, was constructed during the early years of World War II, under emergency conditions, using pre-war developed equipment and processes. These same facilities have now supported three wars without any major renovation. Their age combined with potential safety problems and the need to conform to more stringent pollution abatement standards, dictated the need for a comprehensive modernization effort. The Army is now pursuing this effort, which began in fiscal year 1970 and will extend through fiscal year 1981. The total modernization program is valued at \$3.5 billion. Through fiscal year 1973, approximately \$600 million has been programmed for modernization projects, and the program is chalking up major measurable improvements.

Another of our objectives was to "reduce the overall costs of depot maintenance" or to at least hold the line in the face of continuing cost escalation. Since little can be done to control the increases in materiels and direct labor costs, efforts focused toward reducing overhead and administrative costs.

Depot maintenance facilities' missions were realigned to take maximum advantage of available skills and limited quantities of equipment. The consolidation of like activities provided an improved measure of efficiency which may, in turn, allow for extensive base closures. Progress to date on this objective includes completion of a plan to phase out depot maintenance in the U.S. Army, Pacific, completion of a facilities mission-realignment plan, and the implementation of a cost accounting system for depot maintenance. A very tight and continuing monitorship of this overall project is being exercised.

Rather than discuss further the specifics of my Army I&L goals, I would like to make this observation. In government it is almost impossible to avoid having your complete time and attention diverted to the daily crises and "fire drills." Without objectives one could reach the end of his tenure in government and at best be able to say "I fought 5,000 small fires, attended 300 parties and didn't receive any bad press—these are my accomplishments." The objectives process allows you to keep continual pressure on "moving the ball forward" towards a meaningful accomplishment, even while your attention is diverted to the "fire fighting tasks."

As one of my bright colleagues observed, "If you don't know where you are going, any road will lead you there." I know of no easier way to overcome that problem—either in industry or in government—than with some form of the management objective process. ■

